



ECONOMIC INDICATORS

JANUARY-FEBRUARY 1999

EMPLOYMENT

NONFARM EMPLOYMENT
INCREASED 2.6 PERCENT

FIGURE TWO

COUNTY UNEMPLOYMENT RATES DECEMBER 1998 State Rate: 5.9 percent



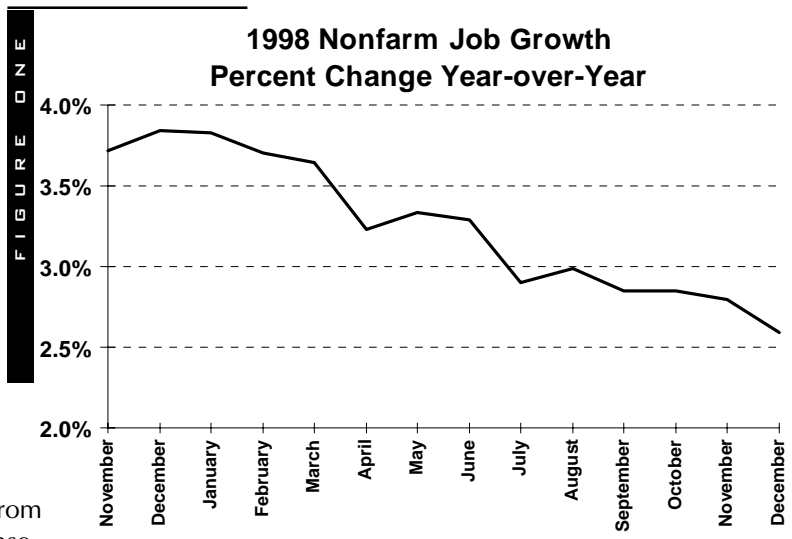
REVIEW OF RECENT ECONOMIC DEVELOPMENTS

While job growth is continuing, there are signs that the California economy is cooling. Nonfarm employment grew throughout 1998, although it slowed somewhat at the end of the year. Asian economic conditions have lead to reduced employment in export-dependent high technology manufacturing. Real estate and construction activity, though, is still expanding at a healthy rate.

Nonfarm employment edged up by 4,400 in December, following a strong November increase of 42,600. The strongest growth during November and December was in services followed by trade—adding 24,700 and 12,900 jobs, respectively. However, mining, manufacturing, and finance, insurance, and real estate sectors each posted job losses during the final two months of 1998.

The December job total of 13,745,200 was up 2.6 percent from the year-earlier level—an increase 346,900 jobs from December 1997. This was the smallest year-over-year gain recorded during 1998. On a December comparison, construction and services had the strongest growth—8.0 and 3.9 percent, respectively. Manufacturing employment declined by 3,000 jobs due to a drop in durable goods, primarily due to weakness in the state's high technology manufacturing industries—aerospace and electronics—which have been impacted by Asian economic troubles.

The state's unemployment rate rose 0.1 percent in December, to 5.9 percent of the labor force. The unemployment data are based on a small sampling of households, and tend to be volatile on a month-to-month basis. However, the state's jobless rate has been stuck in a narrow range of 5.7 to 5.9 percent since April. Marin County, still enjoys the lowest regional unemployment rate, at 1.7 percent, while the highest, 25.8 percent, was in Colusa County. As has been true throughout 1998, the Central Valley, mountain and far northern areas continue to experience above average unemployment rates.



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CONSTRUCTION AND REAL ESTATE

**HOUSING
AUTHORIZATIONS ARE
INCREASING**

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**HOME SALES
HAVE PICKED UP -
PRICES HAVE LEVELED
OFF**

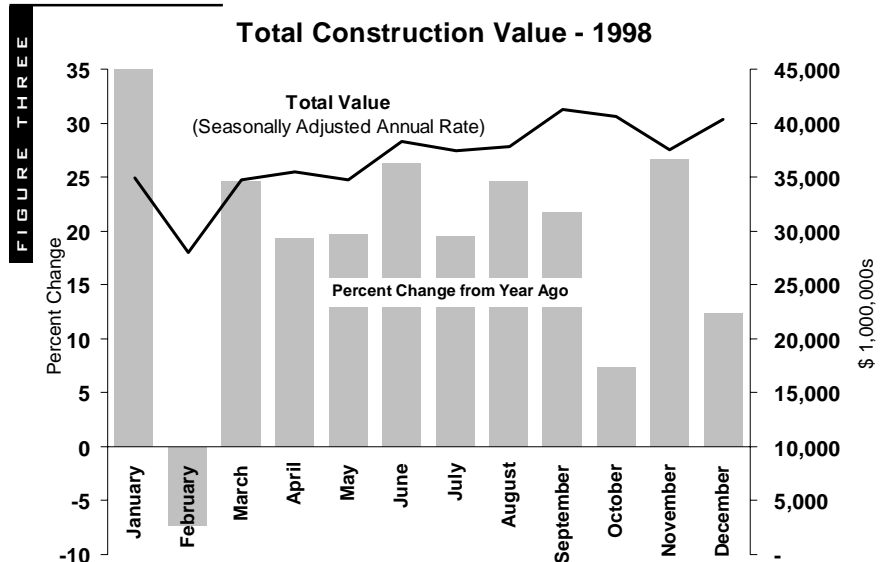
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ECONOMIC OUTLOOK

The value of new construction permits increased by 12.6 percent in December, from the year-earlier. This gain is comparable to the growth rate seen in the spring and summer months. October's increase was only 7.4 percent over the year-earlier level and may have been reflective of an abnormally strong October 1997. December's nonresidential activity posted a year-over-year increase of 4.6 percent. Residential permit values rose 18.0 percent.

The number of single and multi-family housing units authorized during December reached an annual rate of 129,500 units, an increase of 16.7 percent over the year. For all of 1998, 126,000 new housing units were authorized, up 12.7 percent over 1997. Two of the state's largest metropolitan areas—Orange County and San Jose—issued fewer residential construction permits than during 1997. The Central Coast region, including Monterey, San Benito, San Luis Obispo, Santa Barbara and Santa Cruz counties, was the only major region that issued fewer residential construction permits in 1998 than it did in 1997. Total nonresidential construction valuation for all of 1998 increased by 20.4 percent. The largest nonresidential increases were in amusements and recreation, parking garages, and industrial buildings.

The rate of existing single-family home sales picked up during November and December. The seasonally adjusted annual home sales rate reached 648,750 units in December. This rate is 11.9 percent above the December 1997 rate, but still below July's record setting level. In contrast, December's median single-family home price fell slightly to \$198,120—0.5 percent above the October price but almost one percent below the median price from a year ago. The San Francisco Bay and Santa Clara County regions are still setting the highest median home prices, reaching \$321,170 and \$369,970 respectively. For all of 1998, sales of existing homes reached an all-time record volume of 626,801 units.



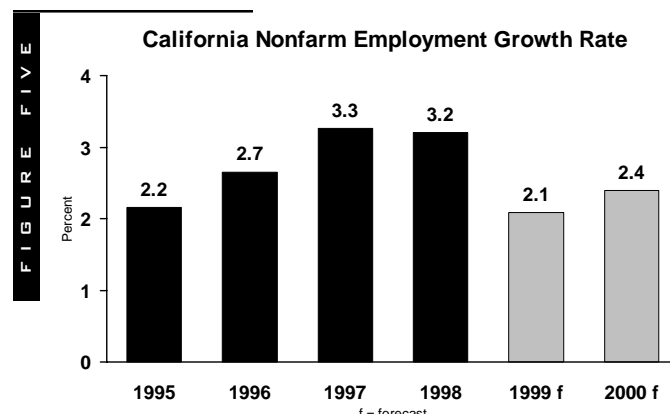
1999-2000 Economic Outlook

*The following is from the Governor's 1999-2000 Budget.
The forecasts were prepared in late November, 1998
and are based on information available at that time.*

The economies of both the U.S. and California are expected to slow in 1999 and 2000. Nationally, real (inflation-adjusted) gross domestic product (GDP) is forecast to slow to just under 2 percent growth this year and a little over 2 percent in 2000, from the 1998 increase of more than 3.5 percent (Figure 4).

In California, nonfarm employment, which grew more than 3 percent in 1998, is expected to advance 2.1 percent this year and about 2.4 percent in 2000 (Figure 5). Reflecting the slowdown in job growth, income gains this year are predicted at 5.1 percent, down from an estimated 6.3 percent in 1998. In 2000, income growth is pegged at 5.5 percent. Inflation is expected to remain low, with U.S. consumer prices up by about 2.5 percent both this year and next.

THE NATIONAL AND INTERNATIONAL BACKDROP

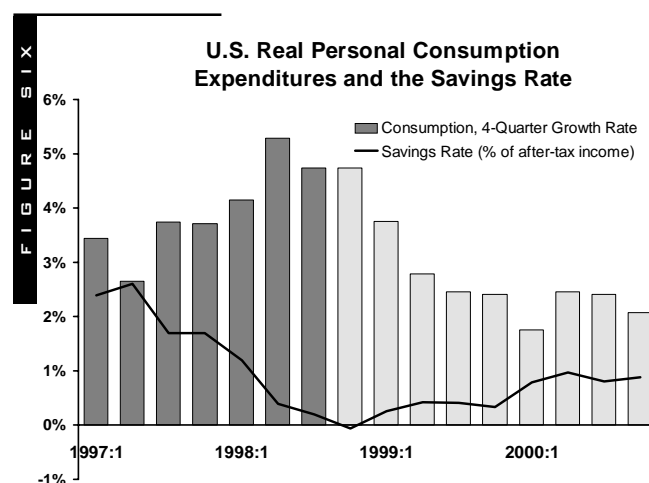


THE U. S. ECONOMY

Despite financial markets turmoil at home and abroad, and recessions throughout much of Asia, Eastern Europe, and parts of Latin America, the U.S. economy grew by over 3.5 percent last year, down from 1997's 3.9 percent pace. Unemployment hovered around a 28-year low of 4.5 percent throughout most of the year, as the economy created jobs at a rate more than double the growth in the working-age population. Despite tight labor markets, inflation, as measured by the broad GDP price index, was held to just 1 percent, the slowest rise in prices since 1959.

Last year's growth occurred despite a near-doubling of the nation's goods and services trade deficit. In constant 1992 dollars, the trade gap widened from \$136 billion in 1997 to almost \$250 billion last year. The plunging trade position subtracted 1.5 percent from real GDP growth in 1998.

The dampening effects of the foreign sector last year were offset by increased consumer demand and continued gains in residential and nonresidential fixed investment. Consumer spending—which accounts for two-thirds of the economy—advanced by 4.7 percent after adjusting for inflation, compared to 1997's 3.4 percent gain. However, spending growth came at the expense of household savings—by late 1998, consumers were actually spending more than they took home in income, for the first time since the 1930s (Figure 6).



Fixed investment rose almost 11 percent in real terms, on top of an 8.3 percent increase in 1997. Government outlays continued to lag, with real federal, state, and local purchases (excluding transfer payments) up less than 1 percent last year.

Financial markets became turbulent in the second half of 1998, the disruption triggered by the financial collapse in Russia and the near failure—averted by a Federal Reserve arranged bailout—of a major U.S. hedge fund. Stock prices plummeted nearly 20 percent between mid-July and the end of August, while safe-haven U.S. Treasury bonds soared in price and plunged in yield.

Disorderly financial markets, coupled with concerns that Asia's economic troubles could spill over to Latin America and eventually the U.S., prompted a major shift in Federal Reserve monetary policy. Beginning in September, the central bank undertook a significant three-step easing that cut the overnight federal funds rate by 75 basis points to 4.75 percent. The rate cut seems to have steadied the financial markets—stock prices briefly revisited mid-July peaks at the end of November—and also appears to have helped contain the Asia-related risk.

Ordinarily, an easing of monetary policy in an environment of robust economic growth and low unemployment would raise fears of inflation. However, with 40 percent of the world economy in recession, there is virtually no pressure on prices. Indeed, prices of goods actually declined in 1998, and with the broad commodity price indexes hovering at 21-year lows, fears of inflation are being replaced in some quarters by concerns over deflation.

There are a number of elements in the current economic situation that point to a slowdown in U.S. economic growth over the next two years:

- As previously noted, consumer spending has outstripped income growth by a wide margin, with the result that by late 1998 consumers were actually spending more than they earned for the first time since the 1930s. This negative savings rate is not sustainable, and incomes and outlays will almost certainly align themselves in the very near future, implying much slower growth in the economy's largest sector. In 1999, real consumption is forecast to grow 2.9 percent, following last year's 4.7 percent jump (Figure 6).
- Reinforcing the cautious outlook for household income and spending is the prospect of significantly slower job growth. With unemployment at the lowest level since the Vietnam War, and with the working-age population expanding at little more than 1 percent per year, a repeat of anything close to last year's 2.5 percent job growth seems very difficult, if not impossible, to achieve. Thus, employment gains are forecast to slow to 1.4 percent this year and 1.2 percent in 2000.
- Inevitably, business investment is determined by corporate profitability—indeed, most capital spending is financed by internally-generated profits and depreciation. With profits beginning to decline—reflecting rising labor costs and intense price competition—there is already considerable pressure on business plant and equipment spending. This forecast expects business investment to grow about 2.75 percent in both 1999 and 2000, down from last year's 10.8 percent advance.
- The trade deficit, although unlikely to widen as much in the next two years as it did in 1998, will continue to be a drag on U.S. economic growth.

C INTERNATIONAL PROSPECTS

California sells about 15 percent of its goods and services output in international trade—about half to Asia—and the state has been feeling the effects of Asia's economic problems, especially in its high-technology manufacturing sector. Weak Asian economies result in reduced demand for worldwide imports, while weak Asian currencies make their exports cheaper in the U.S. and Europe. The extreme weakness in commodity prices can be traced, for the most part, to slumping Asian demand. Low commodity prices, in turn, dampen the economies of several major California export markets including Canada and Mexico, the state's second and third largest markets. U.S. farm commodity prices—grains and livestock—are also under severe pressure from slack Asian demand.

Although there are some encouraging signs of stabilization in several countries—notably South Korea and Thailand—the real key to recovery in Asia is Japan. It is California's number one foreign market (although Mexico may soon displace it), and Japan accounts for 70 percent of the Asian economy (Figure 7). Without recovery in Japan, there can be no real upturn in Asia. Japan's economy has been essentially flat since 1990, and the past year has witnessed a steep plunge in business activity, with output falling almost 3 percent for all of 1998.

Most observers believe that measures taken thus far by the Japanese government fall short of what is needed to turn the economy around. There are hopes for stabilization later this year, but Japan's real GDP could still fall by 1.5 to 2 percent in 1999, with meaningful recovery not emerging until 2000.

With commodity-led slowdowns in Mexico and Canada and a slightly less vibrant economy in Western Europe, 1999 is likely to be another difficult year for U.S. and California exports. The trade picture may begin to improve by the second half of 2000.

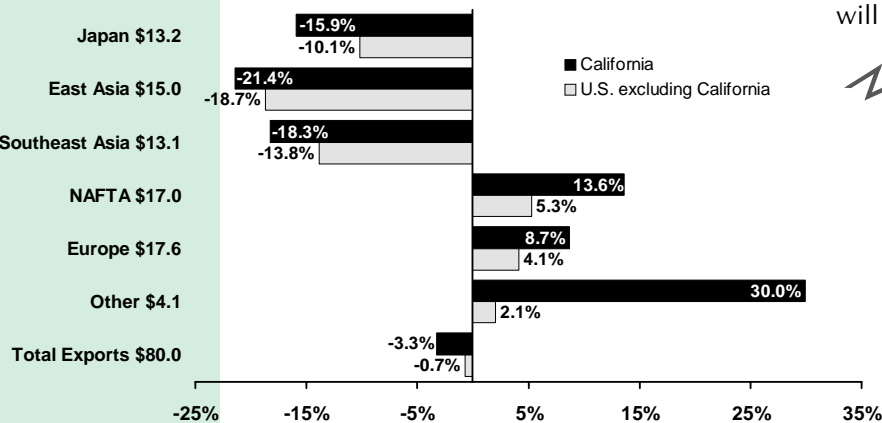
THE CALIFORNIA ECONOMY

As 1998 unfolded, the impact of Asia's recession on California began to emerge. High-technology manufacturing employment—aerospace and electronics—peaked in March, and by November had lost almost 15,000 jobs, or nearly 3 percent of the industries' workforce. Total nonfarm employment started 1998 with annual growth above 3.5 percent, but more recently the year-to-year pace has slowed to around 2.7 percent. Overall, however, California's economy continued to expand in 1998. Nonfarm employment growth averaged 3.2 percent and personal income was up more than 6 percent. The jobless rate was below 6 percent most of the year. Nonresidential construction activity remained quite strong, with building permit value up almost 18 percent. Home-building continued on a moderate recovery path, with permits for new houses reaching 126,000 units, a 13.5 percent increase over 1997.

FIGURE SEVEN

Made In California and Rest of U.S. Merchandise Exports Percentage Change, First 3 Quarters, 1997 to 1998

Note: California 1998 dollar volume in billions is shown beside region names.



Sources: Massachusetts Institute for Social and Economic Research and U.S. Department of Commerce

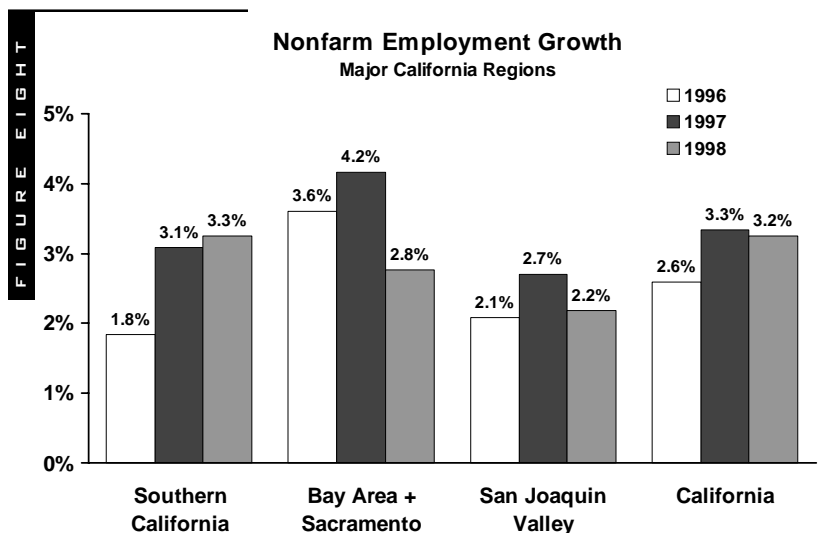
Although weak export demand is likely to persist through at least the next 12 to 18 months, there are other elements in the California economy that will help partially offset the Asia-related problems:

⚡ Demand for computer services and software remains extremely strong, buoyed by the demand to fix Year 2000 problems, the continued explosive growth of the Internet, and by financial sector needs related to the new Euro currency. This industry—classified within business services—is now approaching the quarter-million employee mark, and with annual growth estimated in the 10 to 12 percent range, the figure could exceed 300,000 by late 2000. Last year, gains in computer services fully offset the drop in high-technology manufacturing.

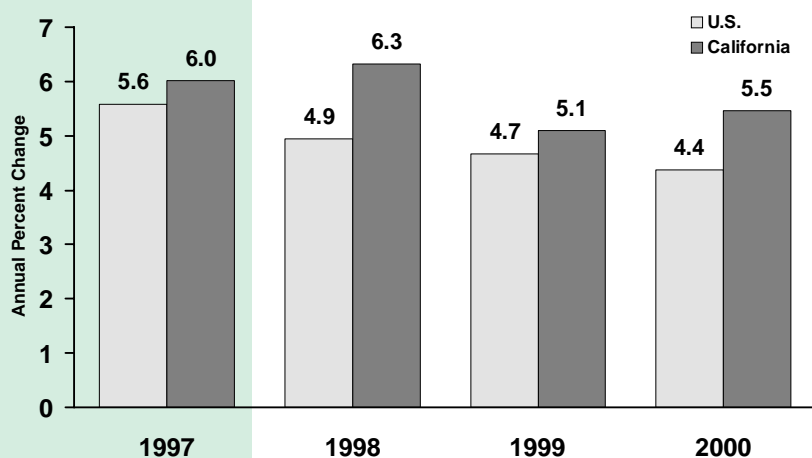
⚡ Because California is in an earlier phase of its nonresidential construction cycle, the state is likely to continue to see strong gains in commercial and industrial building activity, with permit values expected to rise 12 percent in 1999 and nearly 9 percent in 2000.

⚡ Although the nation faces a slowdown in home-building activity—production has been running well above the estimated 1.35 million unit annual demand—California's housing recovery has been quite muted thus far. A turnaround in domestic migration from other states, solid job growth, and mortgage interest rates that are likely to remain near 30-year lows of around 6.75 percent, point to continued gains in California new home construction. Housing permits this year are expected to advance to over 150,000 units, a better than 20 percent increase over 1998, with a further gain to 166,000 units in 2000.

⚡ The strength in construction activity will continue to boost prospects for related manufacturing industries such as stone-clay-glass, lumber, fabricated metals, and furniture. Retail sales of household durable goods—furniture, appliances, floor and window coverings—also benefit significantly from sales of both new and existing homes.



Annual Personal Income Growth U.S. and California



Note: 1998 estimated; 1999 and 2000 are forecasts

California, with a jobless rate still more than a percentage point above the national average, has greater potential for job and income growth than do many other parts of the country where prospects are limited by labor force constraints. Last year, Southern California supplanted the Bay Area as the state's leading growth region. With Bay Area jobless rates generally below 3 percent, compared to almost 6 percent in Los Angeles County, there is greater potential for growth in the Southland (Figure 8).

For these reasons, although California economic growth will slow from the pace of 1997 and 1998, gains in employment and income should continue to outpace the nation. Job growth, for example, is projected at 2.1 percent this year, compared to a nationwide increase of only 1.4 percent. California personal income growth of 5.1 percent in 1999 is also higher than the nationwide forecast of 4.7 percent (Figure 9). State personal income data were revised significantly downward last fall by the U.S. Bureau of Economic Analysis. For California, 1997 income was cut by \$21 billion, and the growth rate reduced from 7.2 percent to 6 percent. The revision mainly reflected the removal of stock and bond mutual fund capital gains distributions—capital gains by definition should be excluded from income because they do not result from current production—and by a reassessment of employee benefits to reflect much smaller employer pension contributions made possible by the booming stock market. Thus, the slower growth in income mainly reflects changes in definition, rather than any underlying change in economic conditions. The exercise of employee stock options—a major element of employee compensation in California's large high-technology sector—is included in personal income as wages and salaries. The relatively narrow gap between U.S. and California personal income growth this year reflects the expectation that a less-ebullient stock market will reduce the growth in option income in 1999.

Figure 10 summarizes the U.S. and California economic forecasts.

Selected Economic Data for 1998, 1999, and 2000

United States	1998	1999	2000
Real gross domestic product, (1992 dollar) (percent change)	3.6	1.9	2.2
Personal consumption expenditures	4.7	2.9	2.2
Gross private domestic investment	9.9	0.5	2.9
Government purchases of goods and services	0.9	2.5	1.3
GDP Deflator (1992=100) (percent change)	1.0	1.7	2.1
GDP, (Current dollar) (percent change)	4.7	3.6	4.3
Federal Funds Rate (percent)	5.41	4.55	4.28
Personal income (percent change)	4.9	4.7	4.4
Corporate profits before taxes (percent change)	-3.1	-5.2	0.5
Nonfarm wage and salary employment (millions)	125.8	127.5	129.0
(percent change)	2.5	1.4	1.2
Unemployment rate (percent)	4.5	4.8	5.1
Housing starts (millions)	1.59	1.50	1.46
(Percent change)	7.7	-5.5	-3.0
New car sales (millions)	8.0	7.5	7.5
(Percent change)	-2.4	-6.2	-1.0
Consumer price index (1982-84=100)	163.2	167.2	171.6
(Percent change)	1.6	2.4	2.6
California			
Civilian labor force (thousands)	16,337	16,727	17,059
(Percent change)	2.3	2.4	2.0
Civilian employment (thousands)	15,392	15,754	16,064
(Percent change)	2.8	2.4	2.0
Unemployment (thousands)	945	973	995
(Percent change)	-6.1	3.0	2.2
Unemployment rate (percent)	5.8	5.8	5.8
Nonfarm wage and salary employment (thousands)	13,588	13,873	14,205
(Percent change)	3.2	2.1	2.4
Personal income (billions)	\$899.6	\$945.5	\$997.1
(Percent change)	6.3	5.1	5.5
Housing units authorized (thousands)	126	152	166
(Percent change)	13.4	20.9	9.3
Corporate profits before taxes (billions)	\$83.1	\$85.1	\$88.4
(Percent change)	2.7	2.5	3.9
New auto registrations (thousands)	1,390	1,461	1,461
(Percent change)	3.3	5.0	0.0
Total taxable sales (billions)	\$360.4	\$379.8	\$400.3
(Percent change)	5.6	5.4	5.4
Consumer price index (1982-84=100)	163.6	167.5	172.5
(Percent change)	1.9	2.4	3.0

Note: percentage changes calculated from unrounded data.

ECONOMIC INDICATOR TABLES

SELECT INDICATORS

EMPLOYMENT

EMPLOYMENT (Seasonally adjusted)

	1998				1997	Yr-Over-Yr % Change
	Dec	Nov	Oct	Sep	Dec	
Civilian employment (000)	15,342	15,381	15,342	15,364	15,152	1.3
Unemployment (000)	956	946	969	987	971	-1.5
Unemployment rate	5.9	5.8	5.9	6.0	6.0	--

Nonagricultural wage and salary employment (000)

	13,745.2	13,740.8	13,698.2	13,656.0	13,398.3	2.6
Mining	27.9	27.8	28.0	28.0	29.5	-5.4
Construction	624.0	626.7	623.8	615.3	577.9	8.0
Manufacturing	1,938.6	1,938.0	1,946.1	1,943.0	1,941.6	-0.2
High technology a/	509.9	510.4	513.0	515.8	526.8	-3.2
Aircraft and parts	83.8	83.8	83.9	84.2	86.5	-3.1
Missiles and space vehicles	23.2	23.2	23.3	23.6	25.1	-7.6
Search and navigation equipment	58.3	58.4	58.4	58.6	59.0	-1.2
Computer and office equipment	88.5	88.7	89.9	90.4	95.1	-6.9
Communications equipment	39.3	39.4	39.5	39.6	39.7	-1.0
Electronic components	148.4	148.5	149.2	150.2	153.2	-3.1
Measuring and controlling devices	68.4	68.4	68.8	69.2	68.2	0.3
Transportation and public utilities	687.7	685.7	681.0	681.8	675.1	1.9
Trade	3,159.5	3,157.6	3,146.6	3,139.3	3,106.6	1.7
Finance, insurance and real estate	788.3	788.3	789.1	788.2	765.1	3.0
Services	4,305.0	4,304.0	4,280.3	4,268.6	4,142.0	3.9
Government	2,214.2	2,212.7	2,203.3	2,191.8	2,160.5	2.5

HOURS AND EARNINGS IN MANUFACTURING

(Not seasonally adjusted)

Average weekly hours	42.5	42.0	41.8	41.3	42.9	-0.9
Average weekly earnings	\$586.50	\$577.50	\$571.82	\$568.29	\$577.86	1.5
Average hourly earnings	\$13.80	\$13.75	\$13.68	\$13.76	\$13.47	2.4

CONSUMER PRICES

CONSUMER PRICE INDEX '(1982-84=100) (Not seasonally adjusted)

All Urban Consumers Series						
California Average	165.1	n.a.	164.8	n.a.	162.0	1.9
San Francisco CMSA	167.4	n.a.	167.2	n.a.	162.6	3.0
Los Angeles CMSA	163.5	163.4	163.2	162.6	161.2	1.4
Urban Wage Earners and Clerical Workers Series						
California Average	158.8	n.a.	158.5	n.a.	156.3	1.6
San Francisco CMSA	163.7	n.a.	163.4	n.a.	159.4	2.7
Los Angeles CMSA	157.2	157.0	156.8	156.1	155.3	1.2

CONSTRUCTION

CONSTRUCTION

Private residential housing units authorized (000) b/	129.5	139.1	135.3	126.0	111.0	16.7
Single units	97.7	104.6	96.2	96.3	79.9	22.3
Multiple units	31.8	34.5	39.1	29.7	31.1	2.3
Residential building authorized valuation (millions) c/	\$2,055	\$2,040	\$1,903	\$2,117	\$1,741	18.0
Nonresidential building authorized valuation (millions) c/	\$1,304	\$1,088	\$1,483	\$1,318	\$1,247	4.6
Nonresidential building authorized valuation (millions) d/	\$1,044	\$1,017	\$1,470	\$1,397	\$1,002	4.2
Commercial	382	338	665	532	349	9.4
Industrial	140	174	186	243	84	65.9
Other	141	157	170	144	80	76.0
Alterations and additions	381	348	450	479	489	-21.9

AUTO SALES

AUTO SALES (Seasonally adjusted)

	1998				1997	Yr-Over-Yr Change
	Nov	Oct	Sep	Aug	Nov	
New auto registrations (number)	119,123	121,855	125,746	128,194	113,942	4.5

a/ Based on the 1987 SIC codes. These values are not seasonally adjusted.

b/ Seasonally adjusted at annual rate

c/ Seasonally adjusted

d/ Not seasonally adjusted

n.a. Not available

**SELECT
INDICATORS
(CONTINUED)**

VACANCY RATES FOR SEPTEMBER 1998

(Percent)

VACANCY RATES

— . . . —

	Office			Industrial
	Total	Downtown	Suburban	
Northern and Central California:				
Fresno	14.3	29.8	11.4	10.7
Oakland-East Bay	8.1	13.2	6.7	--
Sacramento	10.8	7.9	11.8	9.6
San Francisco	3.0	3.1	2.7	6.4
San Jose	3.5	1.5	4.1	--
Southern California:				
Bakersfield	10.0	11.4	9.2	--
Los Angeles	14.1	16.0	13.6	8.5
Orange County	9.1	--	9.1	--
San Diego	8.7	13.9	7.3	6.5
Ventura County	12.3	--	12.3	--
National Average	9.0	8.9	9.0	8.3

MEDIAN PRICE OF EXISTING SINGLE FAMILY HOMES

HOME PRICES

— . . . —

1997				1998			
Jan	\$175,625	Jul	190,625	Jan	\$190,553	Jul	211,780
Feb	167,790	Aug	191,856	Feb	186,580	Aug	209,890
Mar	177,735	Sep	193,760	Mar	196,397	Sep	204,440
Apr	181,218	Oct	191,551	Apr	201,514	Oct	197,230
May	185,010	Nov	190,760	May	204,621	Nov	199,920
Jun	188,801	Dec	186,560	Jun	209,760	Dec	198,120

**LEADING
INDICATORS/^A**

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		Hours	Weekly Hours	Initial Claims	Incorporations	(Thousands)
1997	Jan	4.8	41.6	64,780	4,644	95.5
	Feb	4.8	41.8	57,558	4,379	107.9
	Mar	5.1	42.1	58,485	3,607	94.9
	Apr	5.0	41.9	59,487	4,129	102.3
	May	5.0	41.9	60,730	4,408	109.0
	Jun	5.0	41.9	62,489	4,465	109.1
	Jul	4.9	41.9	62,447	5,061	114.1
	Aug	5.0	42.0	62,131	4,004	119.8
	Sep	4.9	41.8	62,913	4,725	119.4
	Oct	4.9	42.0	61,649	4,713	130.6
	Nov	5.0	42.2	60,006	4,181	118.8
	Dec	5.2	42.1	59,436	4,750	111.0
1998	Jan	5.2	42.2	55,988	4,649	118.0
	Feb	5.0	41.9	61,776	4,590	101.1
	Mar	4.9	41.8	56,475	4,667	119.2
	Apr	4.5	41.1	59,438	5,398	113.8
	May	4.8	41.9	58,423	4,384	121.3
	Jun	4.9	42.1	53,245	4,847	146.6
	Jul	4.6	42.0	54,620	5,217	120.1
	Aug	4.5	41.7	52,856	4,101	146.2
	Sep	4.4	41.0	49,452	3,710	126.0
	Oct	4.7	41.6	54,005	4,671	135.3
	Nov	4.5	41.6	55,778	4,441	139.1
	Dec	4.6	41.7	n.a.	4,529	129.5

a/ Seasonally adjusted by the California Department of Finance.

n.a. Not available

COINCIDENT INDICATORS/^

EMPLOYMENT, UNEMPLOYMENT

— . . . —

Nonagricultural Employment (Thousands)

Manufacturing Employment (Thousands)

Unemployment Rate (Percent)

Unemployment Avg. Weeks Claimed (Thousands)

1997	Jan	12,907	1,881	6.7	447
	Feb	12,960	1,886	6.6	407
	Mar	13,012	1,892	6.4	385
	Apr	13,089	1,901	6.4	398
	May	13,118	1,908	6.3	366
	Jun	13,150	1,914	6.3	381
	Jul	13,203	1,926	6.2	392
	Aug	13,225	1,926	6.2	373
	Sep	13,278	1,927	6.2	386
	Oct	13,319	1,935	6.2	378
	Nov	13,367	1,937	6.1	371
	Dec	13,398	1,942	6.0	395
1998	Jan	13,401	1,943	6.0	341
	Feb	13,440	1,945	5.9	359
	Mar	13,486	1,947	6.0	377
	Apr	13,512	1,944	5.9	367
	May	13,556	1,947	5.9	354
	Jun	13,583	1,948	5.8	356
	Jul	13,586	1,932	5.7	346
	Aug	13,620	1,934	5.8	356
	Sep	13,656	1,943	6.0	359
	Oct	13,698	1,946	5.9	325
	Nov	13,741	1,938	5.8	349
	Dec	13,745	1,939	5.9	n.a.

INCOME, WAGES, TAXABLE SALES

— . . . —

Wages & Salaries from Mining, Construction and Manufacturing (\$ millions)

1995	Qtr I	737,678	85,168	73,137
	Qtr II	752,820	86,492	75,106
	Qtr III	760,687	87,799	75,873
	Qtr IV	765,892	88,762	76,568
1996	Qtr I	786,401	93,690	79,562
	Qtr II	791,576	90,948	80,350
	Qtr III	795,922	90,009	80,237
	Qtr IV	818,180	95,666	80,805
1997	Qtr I	826,792	99,871	83,424
	Qtr II	836,688	101,755	85,171
	Qtr III	849,492	103,650	85,832
	Qtr IV	871,098	106,328	87,300
1998	Qtr I	881,347	108,143	87,937
	Qtr II	895,405	111,601	90,068
	Qtr III	n.a.	n.a.	90,429

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Dept.
n.a. Not available

OTHER INDICATORS/^

DOD Prime Contracts a/

Foreign Trade through California Ports

	\$ millions	% of U.S.		\$ millions	% of U.S.		\$ millions		\$ millions
1981-82	22,685	21.8	1990-91	24,265	19.5	1997		1998	
1982-83	26,387	22.2	1991-92	23,843	21.2	Jan	23,778	Jan	24,636
1983-84	28,520	23.0	1992-93	22,952	20.1	Feb	23,236	Feb	23,778
1984-85	29,115	20.8	1993-94	22,573	20.5	Mar	25,825	Mar	26,921
1985-86	27,738	20.4	1994-95	18,277	16.8	Apr	25,526	Apr	25,220
1986-87	24,515	18.4	1995-96	18,230	16.7	May	25,217	May	24,566
1987-88	23,458	18.7	1996-97	18,477	17.3	Jun	26,589	Jun	26,028
1988-89	23,125	19.3				Jul	27,673	Jul	25,158
1989-90	22,312	18.4				Aug	26,975	Aug	25,358
						Sep	27,746	Sep	25,710
						Oct	29,335	Oct	27,217
						Nov	26,498		
						Dec	27,427		

a/ U.S. fiscal year: October through September

TECHNICAL NOTE

ECONOMIC INDICATOR CHARTS

Ceries classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-11 Arima program. Persons interested in a detailed description of this method are referred to Statistics Canada, *The X-11 Arima Seasonal Adjustment Method* (Catalog No. 12-564E, February 1980).

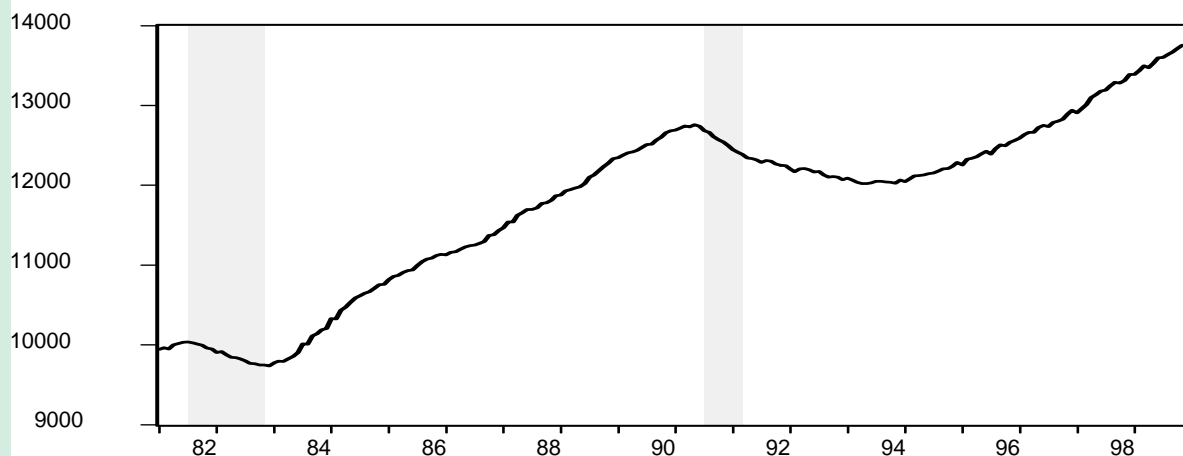
Under the X-11 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to “freeze” the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

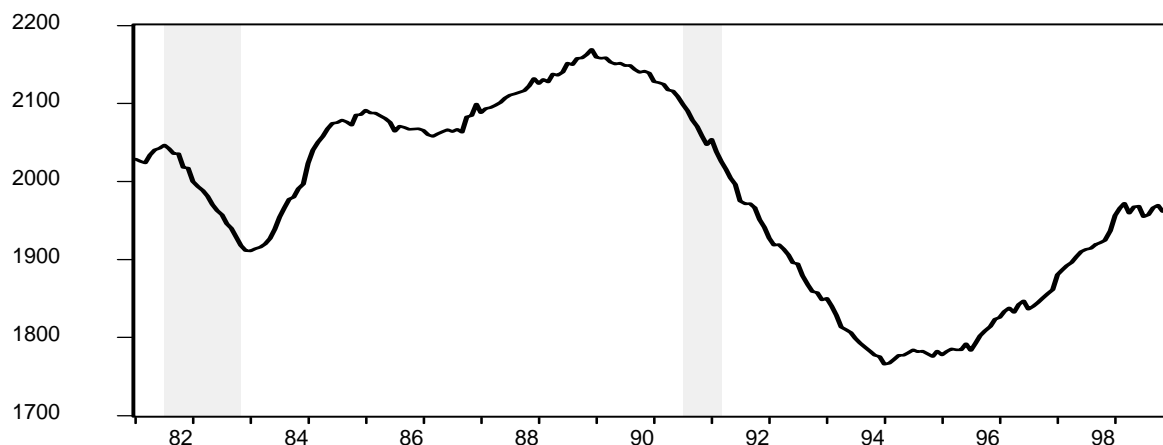
**NONAGRICULTURAL
EMPLOYMENT**
(THOUSANDS,
SEASONALLY ADJUSTED)

— . . . —



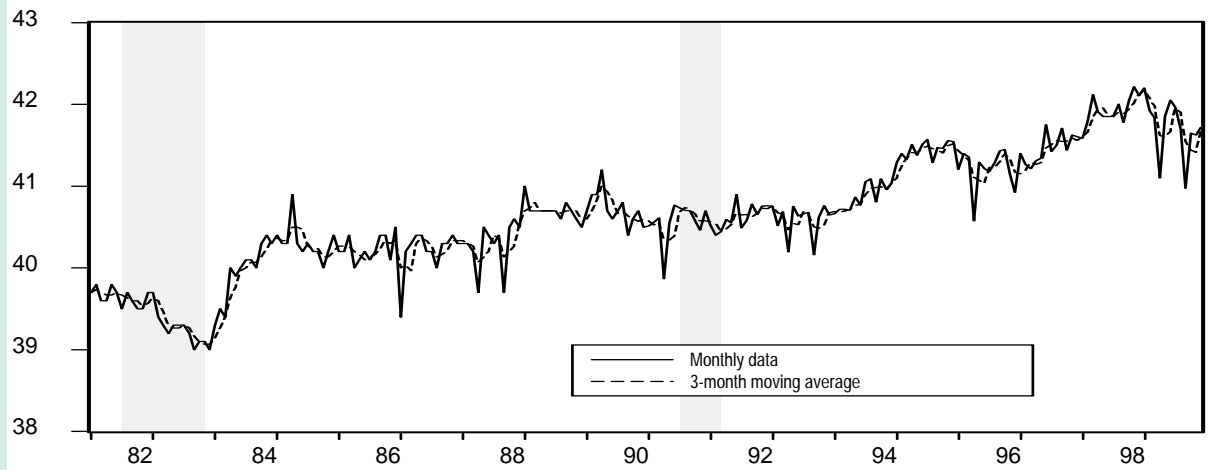
**MANUFACTURING
EMPLOYMENT**
(THOUSANDS,
SEASONALLY ADJUSTED)

— . . . —



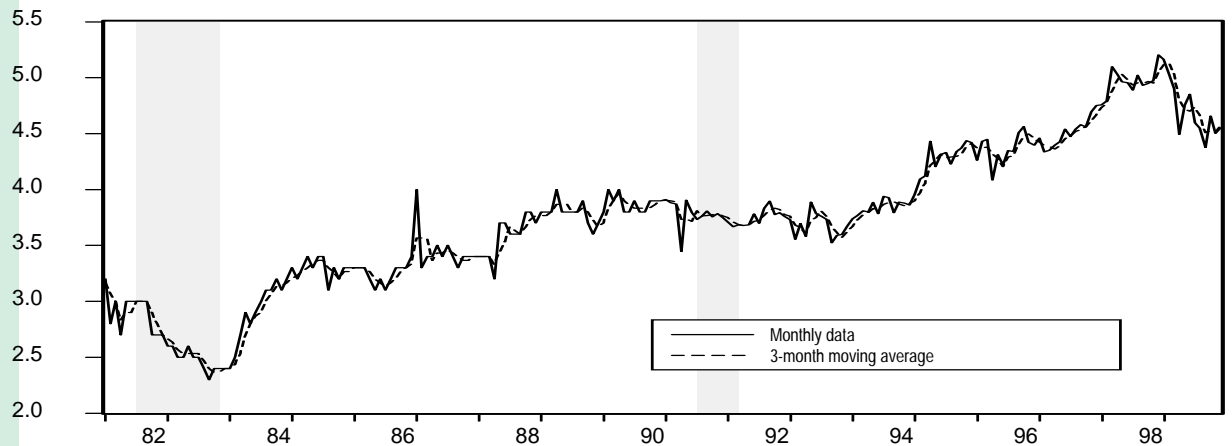
**AVERAGE WEEKLY
HOURS,
MANUFACTURING**
(SEASONALLY ADJUSTED)

— . . . —



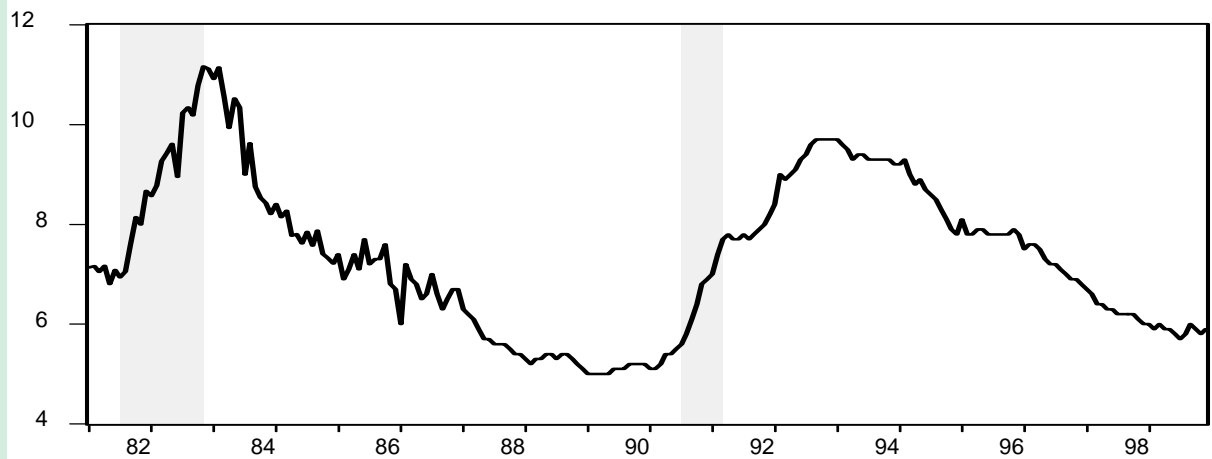
**AVERAGE OVERTIME
HOURS,
MANUFACTURING**
(SEASONALLY ADJUSTED)

— . . . —



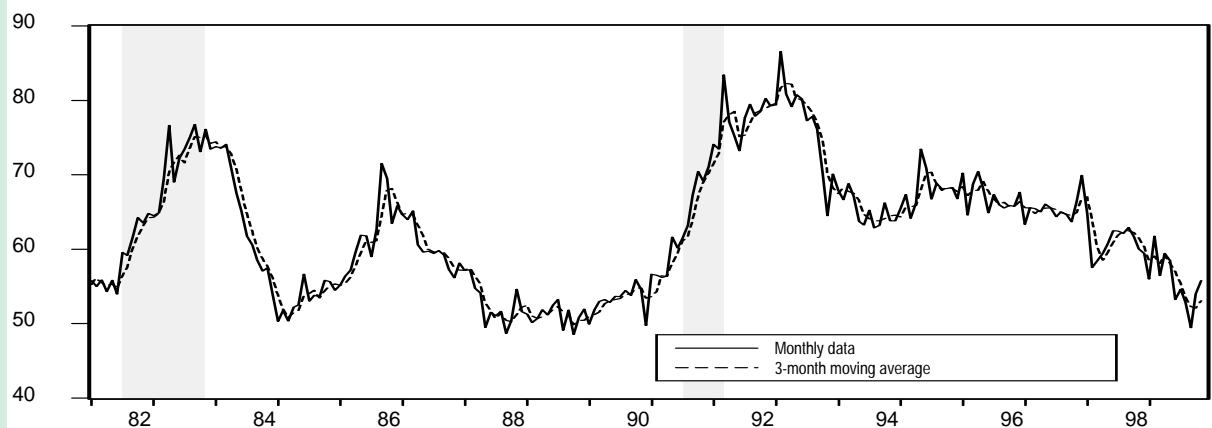
**UNEMPLOYMENT
RATE**
(PERCENT)

— . . . —



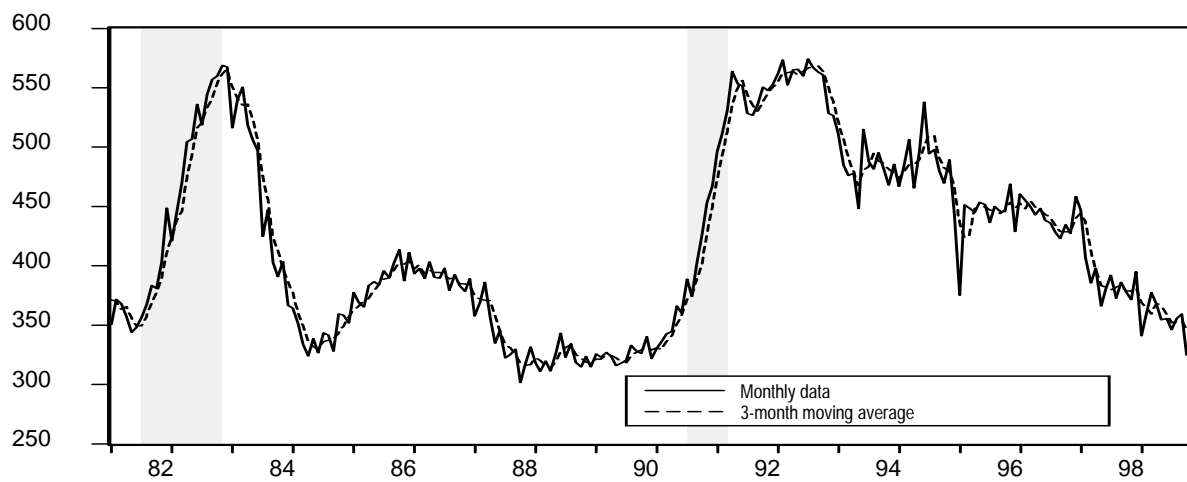
**INITIAL CLAIMS FOR
UNEMPLOYMENT
INSURANCE**
(WEEKLY AVERAGE IN
THOUSANDS, SEASONALLY
ADJUSTED)

— . . . —



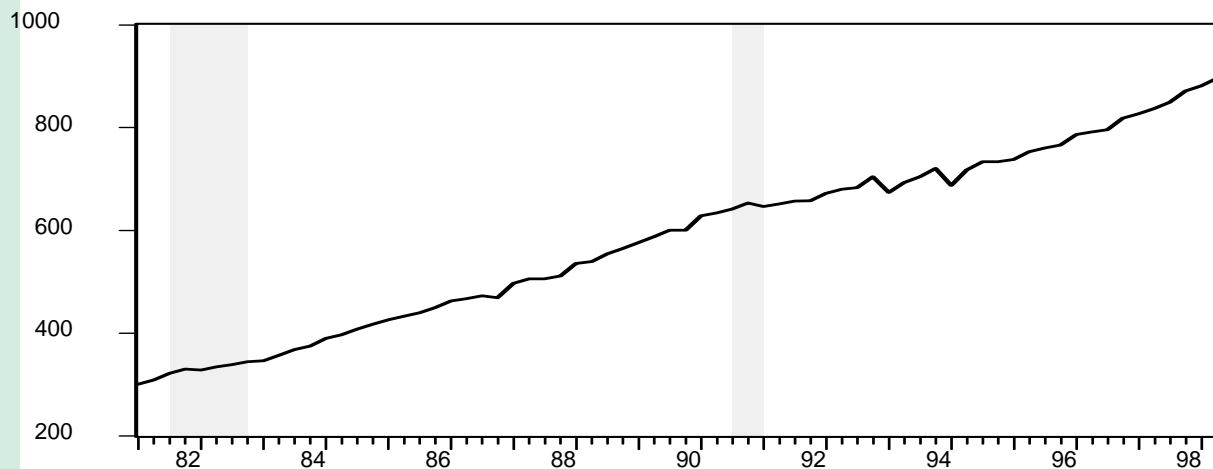
**INSURED
UNEMPLOYMENT,
AVERAGE WEEKS
CLAIMED**
(THOUSANDS, SEASONALLY
ADJUSTED)

— . . . —



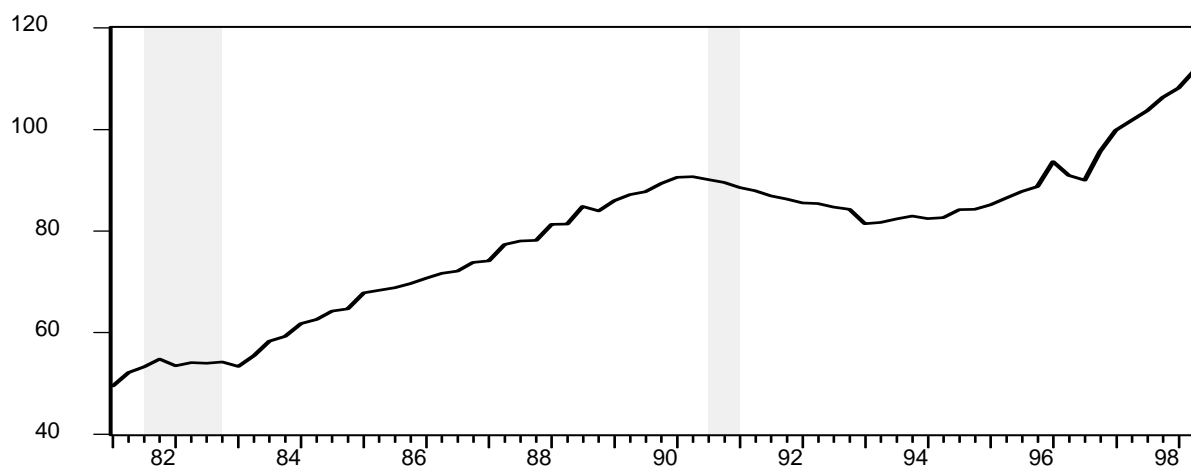
**PERSONAL
INCOME**
(DOLLARS IN BILLIONS,
SEASONALLY ADJUSTED)

— . . . —



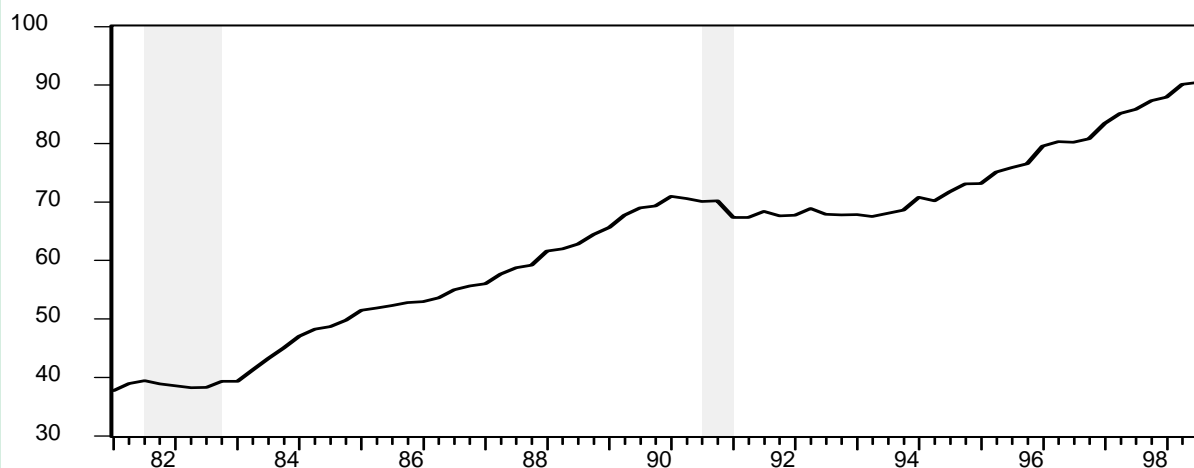
**WAGES AND
SALARIES MINING,
CONSTRUCTION AND
MANUFACTURING**
(DOLLARS IN BILLIONS,
SEASONALLY ADJUSTED)

— . . . —

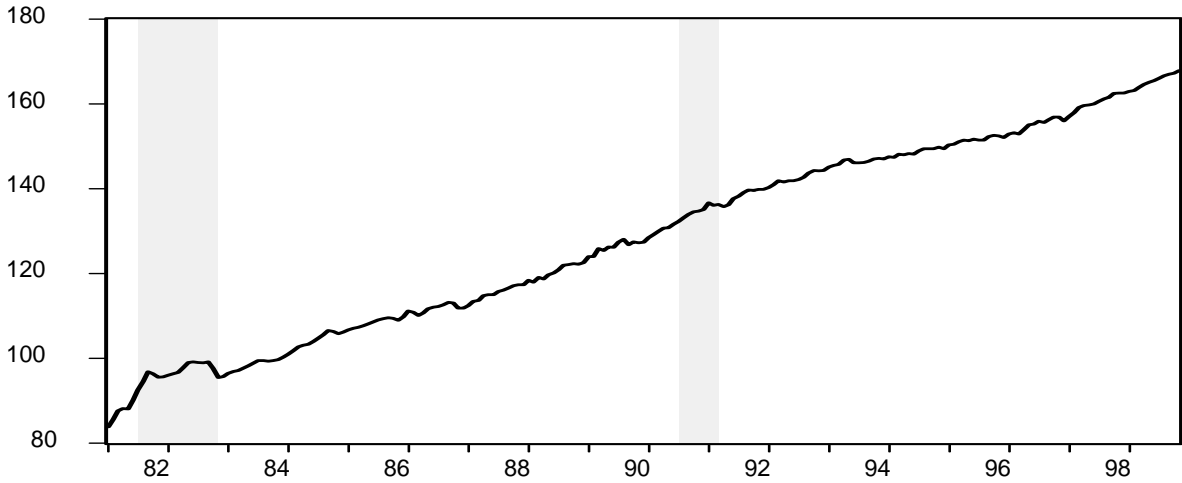


TAXABLE SALES
(DOLLARS IN BILLIONS,
SEASONALLY ADJUSTED)

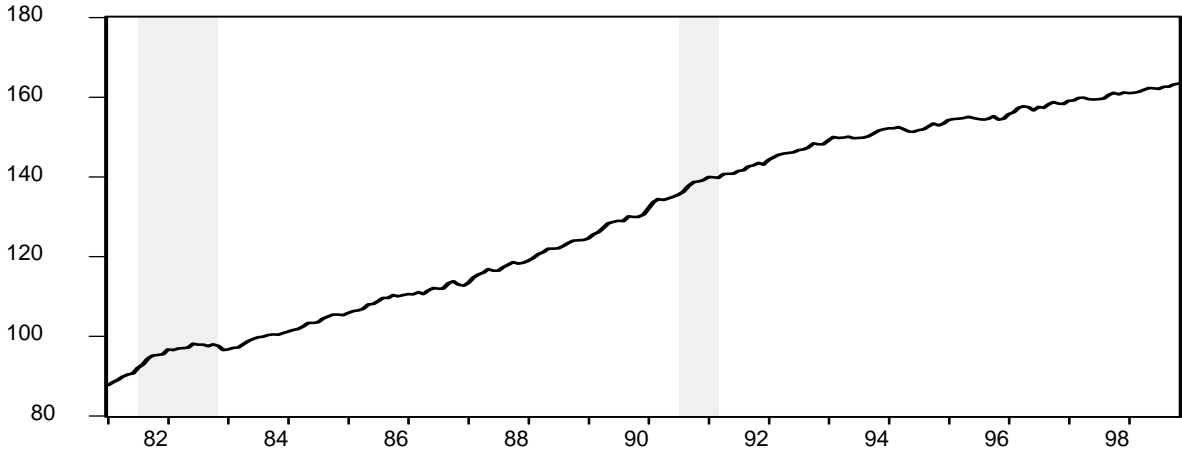
— . . . —



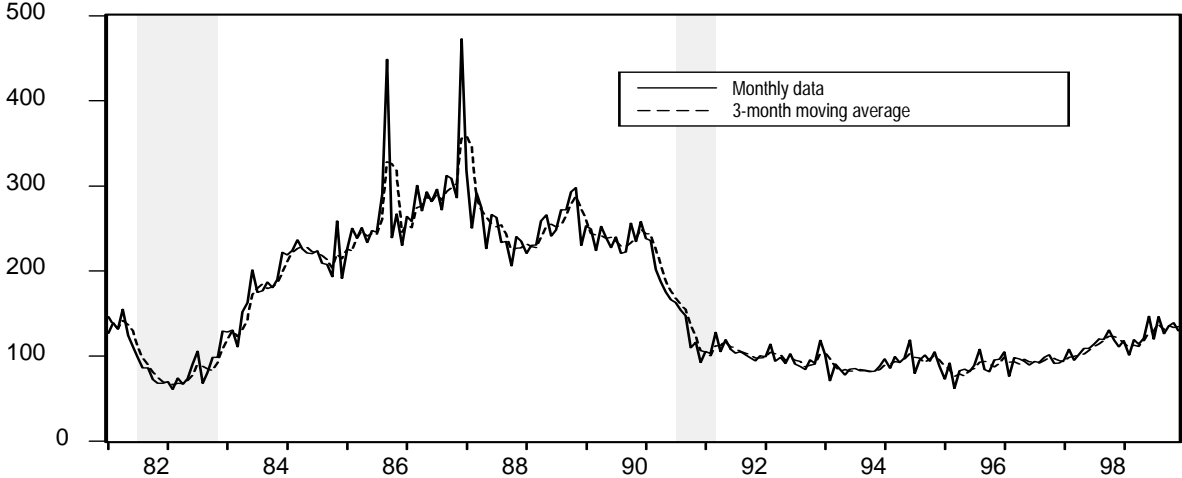
**CONSUMER PRICE INDEX,
SAN FRANCISCO
(1982-84=100)**
— . . . —



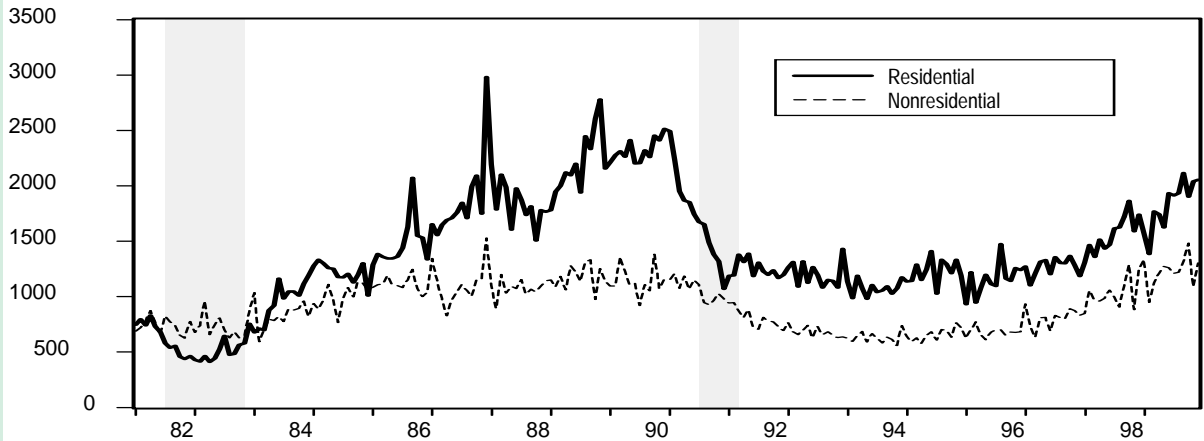
**CONSUMER PRICE INDEX,
LOS ANGELES
(1982-84=100)**
— . . . —



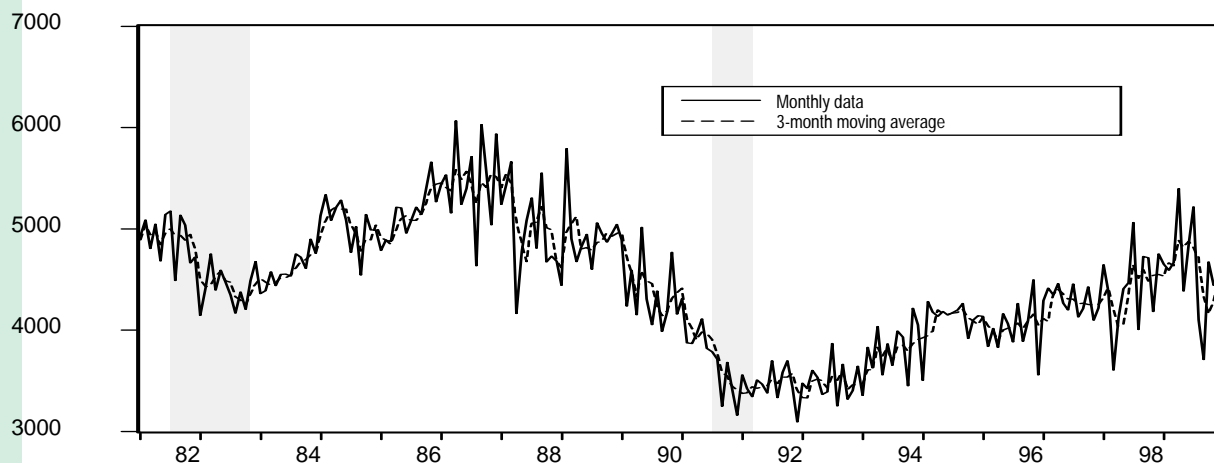
**PRIVATE HOUSING
UNITS AUTHORIZED
(THOUSANDS, SEASONALLY
ADJUSTED AT ANNUAL RATE)**
— . . . —



**RESIDENTIAL AND
NONRESIDENTIAL
BUILDING PERMIT
VALUATION
(DOLLARS IN MILLIONS,
SEASONALLY ADJUSTED)**
— . . . —



NEW BUSINESS INCORPORATIONS (SEASONALLY ADJUSTED)



CHRONOLOGY

1998

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of event dating back to 1956 is available at the Department's home page at: <http://www.dof.ca.gov/>

January 5

Bond prices surged sending the 30-year Treasury to a record low yield of 5.73 percent, while comparable government-bond yields reached their lowest levels since the 1960s.

February 2

Standard and Poor's stock index passed the 1000 milestone for the first time.

February 27

Fourth quarter 1997 GDP growth rate revised to 3.9 percent, down from an initial estimate of 4.3 percent.

March 1

California's minimum wage raised from \$5.15 to \$5.75.

Winter

El Nino-fueled storms caused widespread flooding and landslides in California. Thirty-five counties declared federal disaster areas. The State's agriculture industry estimates a flood-related loss of \$57.4 million so far.

March 19

The U.S. trade deficit for January widened to its worst level in six years.

March 20

Boeing plans to reduce approximately 6,200 jobs in California by the year 2000.

March 24

Xerox Corp. plans to cut 10,000 jobs worldwide or 11 percent of its workforce.

March 30

OPEC agreed to cut crude-oil production by 1.25 million barrels a day.

April 6

Dow Jones Industrial average topped the 9000 mark.

April 8

Tornadoes swept the South causing death and significant property damage.

April 13

NationsBank formally announced its merger with BankAmerica while BancOne confirmed its planned combination with First Chicago.

April 14

Intel announced that it will eliminate up to 3,000 jobs over the next six months.

April 22

National Semiconductor plans to cut its worldwide workforce by 10 percent, or about 1,400 people.

May 6

Compaq plans to eliminate 15,000 jobs following its purchase of Digital Equipment

June 4

Motorola plans to layoff 10 percent of its workforce, or about 15,000 workers.

June 5-July 28

United Auto Workers strike at General Motors.

June 8

Wells Fargo & Co. and Norwest agreed to merge.

June 12

California's unemployment rate fell in May to its lowest level in nearly 8 years. June 18 Texas Instruments plans to eliminate 3,500 jobs worldwide, about 8 percent of its payroll.

June 24	OPEC agreed to cut crude-oil production by 1.4 million barrels per day. June 25 Rockwell International Corporation will cut 9 percent of its workforce, or 3,800 jobs.
June 26	El Niño damage to California's agricultural industry soars to \$422 million. Lockheed announced its plan to lay off 2,500 workers at Sunnyvale, California.
June	Japan officially declares a recession.
June 29	Chinese and U.S. companies signed \$1.1 billion in new business deals, including China's agreement of intent to purchase 27 Boeing Co. jetliners.
July 10	IMF agreed to provide Russia with an assistance package worth \$14 billion.
July 16	Lockheed Martin called off its proposed merger with Northrop Grumman. The Nasdaq composite edged over 2,000 for the first time.
August 13:	Boeing to transfer selected 737 assembly processes to Long Beach, California.
August 14:	California agriculture flourished in 1997, breaking records in both production and income NationsBank and BankAmerica merger gets federal approval.
August 17:	Golden State Bancorp and California Federal Bank agreed to merge.
August 31:	The Dow Jones Industrial average fell 512.61 points wiping out what remained of the year's gains. The Nasdaq Composite fell 140.43, its worst point drop ever.
Sept. 2:	Northwest Airlines issued layoff notices to 27,500 employees, or 55 percent of its workforce.
Sept. 15:	Rockwell International Corp. to eliminate around 900 jobs.
Sept. 17:	Citigroup expects to eliminate about 8,000 jobs by year end, or 5 percent of its workforce.
Sept. 21:	Russia devalues currency and restricts international transactions including debt repayments. Financial firms have lost more than \$8 billion so far in the fallout from Russia's financial collapse.
Sept. 29:	Federal funds rate reduced from 5.50 percent to 5.25 percent. Dow Jones Industrial average fell 237.90 points the next day.
October 2:	California's credit rating was upgraded by Moody's Investors Service Hewlett-Packard Co. will eliminate 2,500 jobs or 2 percent of its workforce.
October 6:	Washington Mutual Inc. will close 161 branches in California as a result of its Home Savings of America acquisition.
October 7:	Raytheon Co. to cut workforce by 14,000.
October 8:	Packard Bell NEC to cut U.S. workforce by 20 percent.
October 12:	Merrill Lynch will cut work force by 3,400 or 5 percent.
October 15:	Federal funds rate reduced from 5.25 to 5.00 percent. Discount rate reduced from 5.00 to 4.75 percent. The Dow Jones Industrial average rose to more than 330 points and led to rallies in European, Asian and Latin American stock markets. Canada and Argentina followed with rate cuts of their own.
October 30	Third quarter GDP jumped to an annual rate of 3.3 percent exceeding estimates.
November 12	Brazil reached a pact with leading countries and lenders on a \$42 billion rescue package, in a move aimed at preventing the financial crisis from spreading throughout South America.
November 17	Federal funds rate reduced from 5.00 to 4.75 percent. Discount rate reduced from 4.75 to 4.50 percent.
December 1	Exxon and Mobil confirmed their plans to merge, creating the world's largest oil producer.
December 2	NEC Electronics lays off about 400 workers or 13 percent of its U.S. workforce.
December 9	MCI WorldCom Inc. plans to layoff about 3,750 or between 3 to 5 percent of its workforce. Trans World Airlines announced its biggest plane order ever, confirming it has placed orders and options for up to 250 Airbus and Boeing jets.

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